

AR26

Sunlite
Oil
Company
Limited

1977 Annual Report

Description of Business

The company was incorporated March 2, 1945, under the laws of the Province of Alberta, Canada. Sunlite is engaged in the exploration for and development of oil and gas properties and the exploration for mineral properties. Producing interests are held in Alberta, British Columbia and Saskatchewan and in Louisiana, U.S.A. The principal exploratory interests of the company are located throughout Canada and the U.S.A. and in the British, Dutch and German Sectors of the North Sea.

Annual Meeting and Form 10-K

The Annual General Meeting of shareholders will be held on Thursday, December 8, 1977, at ten o'clock A.M. (local time) at the 18th Floor Auditorium of the Norcen Tower, 715 - Fifth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with a proxy statement and information circular and form of proxy, is being mailed with this report.

Sunlite will provide its Form 10-K Annual Report (without exhibits) upon written request from its shareholders. Exhibits are available upon request at a charge sufficient to cover the company's mailing and reproduction costs.

**sunlite
oil
company
limited**



DECEMBER 31, 1976 and 1977
(Unaudited)

Note 1

The consolidated financial statements presented herewith have not been audited; however, they reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results of its operations and changes in its financial position for the six months ended December 31, 1976 and 1977.

NOTE 2 INCOME TAXES

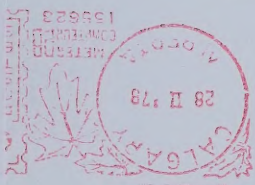
The provision for income taxes amounted to \$85,040 for 1977 and a recovery of \$191,183 for 1976. These amounts differ from the results which would be obtained by applying the Canadian Federal Tax Rate of 46% to the pretax loss of \$230,114 for 1977 and \$1,005,428 for 1976. The difference for 1977 results from the following items:

	Amount	% of Loss Before Income Taxes
Federal tax recovery (provision) on consolidated loss based on Canadian Federal Tax Rate	\$ 105,852	46.0
Add		
Provincial taxes, net of Federal tax abatements	2,301	1.0
	108,153	47.0
Add (Deduct)		
Non-deductible costs, primarily royalties and other payments to provincial governments	(110,274)	(47.9)
Loss of subsidiary on which no tax benefit was recorded	(174,721)	(75.9)
Depletion allowances on Canadian oil and gas production income	26,464	11.5
Federal resource allowance	54,380	23.6
Refunds from provincial incentive plans	10,958	4.8
	<u>\$ (85,040)</u>	<u>(36.9)</u>

NOTE 3 ACCOUNTING POLICY ON FOREIGN EXCHANGE CONVERSIONS

Under United States accounting practice, gains or losses resulting from the conversion of foreign currency amounts are included in determining net earnings for the period in which the exchange rate changes. If the company had followed this practice, the loss for the six months ended December 31, 1977 would have been decreased by \$20,914 and the opening deficit would have been decreased by \$117,575, the accumulated unrecognized gains on foreign exchange conversions to June 30, 1977.

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THE GLOBE AND MAIL
140 KING ST W
TORONTO ONT

SUNLITE OIL COMPANY LIMITED
1517 Noreen Tower
715, 5th Avenue S.W.,
Calgary, Alberta, Canada T2P 2X6

**sunlite
oil
company
limited**

**INTERIM REPORT
TO SHAREHOLDERS**

For Six Months
Ended December 31, 1977

INTERIM REPORT

This Interim Report to Shareholders covers the six month period ending December 31, 1977.

FINANCIAL REVIEW

Revenue from oil and gas sales remained at a static level for the past six months amounting to \$735,343 as compared to \$752,272 for 1976. Price increases enabled revenue levels to remain constant even though oil production levels were down by 17% and gas production levels were down by 31%. The decline in gas production was largely due to mechanical production difficulties and reduction in Government allowances in our Heimet field. Until the export policy of the Canadian Government changes enabling us to produce shut-in reserves or we are able to establish new U.S. reserves, it is unlikely that revenue levels will show any substantial increase.

General and administrative expense is significantly higher for the past six months mainly due to the expenditure of approximately \$111,000 paid to leasing personnel who were active in acquiring an additional 16,000 net acres on various Texas prospects.

Exploration and dry hole costs totalled \$26,430 for the period and included expenditures on prospects in Canada and further evaluation of discoveries in the British and Dutch sectors of the North Sea.

Property surrenders for the period resulted from the write-off of the cost of our interest in Block Q/7 in the Dutch North Sea which your company surrendered as the projected economics did not appear to warrant additional investment.

The substantial reduction in the provision for depletion and depreciation resulted primarily from the reduction in production levels outlined in the oil and gas revenue discussion. A second factor was the reduction in certain rates as a result of our recent reserve study, giving certain wells more reserves than originally estimated.

The net loss for the period was \$315,154 or \$11 per share compared to \$814,245 or \$28 per share in 1976. Cash flow from operations before dry hole costs, exploration costs and property acquisition expense was \$237,492 down from \$319,092 in 1976.

Fixed asset additions totalling \$650,887 during the past six months can be summarized as follows: Lease bonuses on acreage acquired amounted to \$273,000 in Texas and \$52,000 in Alberta; our share of the cost of British North Sea Well 16/26-2 was \$131,500; our share of two Alberta gas discoveries was \$107,000; development drilling and equipment installation in Alberta and the Reddell Field of Louisiana amounted to \$107,000; additional drilling in Ras Al Khaimah cost \$16,000 and disposal of drilling supply inventories in the North Sea resulted in a credit of \$36,000.

Working capital at December 31, 1977 is \$603,433, a reduction of \$173,742 during the past six months.

EXPLORATION

Western Canada

During the past six months Sunlite participated in drilling three development wells and three deeper pool tests in the Hamilton Lake area of east Central Alberta. All six tests have been completed as oil wells and one of the deeper pool tests, although classed as an oil well, is also capable of gas production from the deeper Ostracod zone. Your company also participated in drilling four wildcat tests resulting in two gas discoveries and two abandonments.

Sunlite at Hackett 10-19-36-18-W4M flowed 2.46 million cubic feet of gas per day from a drill stem test of the Sparky sand. The well was drilled on acreage farmed in from others. Sunlite has sixty percent interest in the discovery well until payout and thirty percent interest in the well and surrounding acreage thereafter. Hackett 10-19-36-18 is presently shut in, awaiting market.

The second wildcat discovery well was N.C.O. et al Figure 11-9-63-16 W4M (Sunlite twenty-five percent) approximately 7 miles north of the Edward gas field. The well flowed gas at 1.42 million cubic feet per day from the Sparky sand. In addition, the well had significant shows from other zones which will require further evaluation by drilling and geophysical work. Figure 11-9-63-16 is shut in, awaiting market.

The two wildcat abandonments drilled at no cost to Sunlite were located at Edward in north central Alberta and in the Fort St. John area of northeast British Columbia.

The recent oil and gas discoveries in the West Pembina area of Alberta are considered to be the most significant discoveries in the Canadian petroleum industry in the past twelve years.

The discovery well, drilled by Chevron Standard Limited, flowed light gravity oil at the rate of 3,180 barrels per day from approximately 200 feet of gross pay in the Upper Devonian. This discovery test, drilled one year ago, has resulted in a number of oil and gas discoveries in the Devonian by other companies in the general area.

Sunlite has a ten percent interest in 2400 acres in the West Pembina area. Chevron have announced a well is to be drilled as a south offset to your company's acreage. The results of this well will determine Sunlite's plans in the area.

Beaufort Sea

Dome Nektoralik K-59, discovered oil on Beaufort Sea acreage in which Sunlite has a one percent gross overriding royalty interest. The discovery well flowed oil at 1,150 barrels per day with significant gas shows in other zones. Sunlite's one percent gross overriding royalty interest covers three million acres in the central part of the Beaufort Sea.

Dome has licensed two additional tests on Sunlite's royalty interest acreage which could be drilled during the forthcoming summer drilling season.

Two tests were also drilled by Dome to the south of Sunlite's holdings which tested gas at rates ranging up to seventeen million cubic feet per day.

Texas

Sunlite now has leases on seven exploratory prospects in the Cotton Valley-Smackover trend of East Texas totalling approximately 14,000 acres. Negotiations are underway with several groups to drill exploratory tests at no cost to the company. It is expected that negotiations will be completed and the first well will be drilled during 1978.

In the Cow Creek area in Travis County, Texas, leases totalling 9,000 acres were taken on a large prospect with multiple objectives. The prospect has been farmed out to a group which plans to drill an exploratory well in early spring at no cost to the company. Sunlite will retain a 25% interest in the prospect.

Sunlite also has leased 3,600 acres on 6 prospects in West Texas and we are in the process of acquiring seismic data for further evaluation.

Ras Al Khaimah

In R.A.K. (Sunlite interest 0.4%), two additional wells have been drilled on the "B" Structure. The discovery well on the structure, B-1, flowed limited quantities of oil and gas from the Cretaceous Limestone. The two outstep wells, B-2 and B-3, have had shows of hydrocarbons and a testing program is being considered. Sunlite did not participate in drilling the outstep wells.

On the "A" Structure a confirmation well to the A-1 discovery, the A-2 is drilling below 16,000 feet.

Umm Al Qaiwain

Sunlite is participating in U.A.Q. No. 2, (Sunlite interest 2%), an outstep from a gas condensate discovery. As previously reported the discovery well flowed at a rate of over 30 million cubic feet per day. Contracts have been signed to deliver gas to Dubai after the operators confirm a commercial gas reserve.

Holland Black Q-7

A second exploratory well was proposed on Block Q-7, (Sunlite interest 5%) on a structure to the southwest of the discovery well. Sunlite elected not to join in drilling this test and relinquished its interest in the block, because of the marginal economics projected for this accumulation.

SUNLITE OIL COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED DECEMBER 31, 1976 and 1977
(Unaudited)

	1977	1976
REVENUE		
Oil & gas sales	\$735,343	\$752,272
Investments	41,982	85,664
	<u>777,325</u>	<u>837,936</u>
EXPENSE		
Well operating	167,361	165,914
General & administrative	481,398	285,641
Carrying charges on non-producing properties	22,341	28,233
Exploration & dry hole costs	26,430	432,395
Property surrenders & write-offs	216,385	754,963
Depletion & depreciation	93,524	176,198
	<u>1,007,439</u>	<u>1,843,364</u>
Loss before income taxes	(230,114)	(1,005,428)
Recovery of (provision for) income taxes (Note 2)		
Current	18,347	31,415
Deferred	(103,387)	159,768
	<u>(85,040)</u>	<u>191,183</u>
NET LOSS	\$(315,154)	\$(814,245)
NET LOSS PER SHARE	<u>\$(1.11)</u>	<u>\$1.28</u>

CONSOLIDATED STATEMENT OF CHANGES

IN FINANCIAL POSITION

FOR THE SIX MONTHS ENDED DECEMBER 31, 1976 and 1977
(Unaudited)

	1977	1976
WORKING CAPITAL DERIVED FROM		
Loss for the period	\$(315,154)	\$(814,245)
Add items not affecting working capital	414,545	825,460
	<u>99,391</u>	<u>11,215</u>
Add dry hole, exploration and property acquisition costs charged to operations	138,101	307,877
Working capital derived from operations before dry hole, exploration and property acquisition costs	237,492	319,092
Reduction in notes receivable	—	309,450
Issue of capital stock	<u>237,492</u>	<u>623,542</u>
WORKING CAPITAL APPLIED TO		
Dry hole costs & exploration expenditures	26,430	307,877
Property acquisition costs	111,671	—
	<u>138,101</u>	<u>307,877</u>
Fixed assets	650,887	397,186
Repayment of natural gas contract advances	81,746	89,394
Increase in notes receivable	<u>90,500</u>	<u>—</u>
	<u>961,234</u>	<u>794,457</u>
DECREASE IN WORKING CAPITAL	(723,742)	(164,915)
Working Capital at beginning of period	1,327,175	1,500,850
WORKING CAPITAL AT END OF PERIOD	<u>\$ 603,433</u>	<u>\$1,335,935</u>

February 28, 1978

PRESIDENT

To Our Shareholders

The Company changed its year end from September 30th to June 30th resulting in a nine month period for this annual report. Revenue from oil and gas production again increased on a year to year basis, projected to be \$1.6 million for the twelve months ending September 30, 1977 as compared with \$1.1 million for 1976. Comparisons for the nine months ending June 30th are shown in the body of the report.

The Company expended \$807,000 during the fiscal period in exploration and development drilling. Included were eight exploratory wells in Canada, two in the German North Sea, two in the U.K. North Sea and one in the Emirate of Ras al Khaimah. These tests resulted in four gas discoveries in Canada and one gas-condensate discovery in Ras al Khaimah. The development drilling was carried out in our Hamilton Lake field in Alberta.

In Canada and the U.K. North Sea there is currently an over-supply of gas so that for the near term there is no market for reserves developed by our recent discoveries. We anticipate that this situation will improve, but do not expect to be able to place these reserves on stream in the near future unless the governments involved decide to export gas. The earliest delivery date under existing policies in Canada is projected to be in the latter part of 1979.

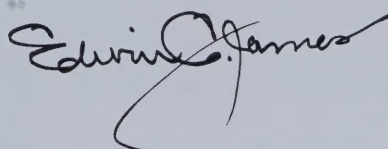
During the past nine months a geological program has been undertaken to evaluate Cretaceous and Jurassic (Smackover) prospects in East Texas. A number of high potential prospects have been defined, and we have been successful in acquiring leases on ten of these. We expect to drill one or more of the prospects during 1978.

There were two events of importance to Sunlite subsequent to the June 30th reporting period:

In the U.K. North Sea the second well on Block 16/26 discovered gas-condensate in Cretaceous sands after drilling to Jurassic objectives. The well produced gas at the rate of 12.3 million cubic feet per day and condensate at the rate of 879 barrels per day from a Cretaceous sand interval of 12,080 feet to 12,132 feet. Geological studies indicate that there is a large gas-condensate reservoir underlying the block which will justify further drilling. Sunlite has a 6.25 percent interest in the block.

Dome Petroleum Limited announced a major discovery on our Beaufort Sea holdings. Dome Nektoralik K-59, 109 miles northwest of Tuktoyaktuk Peninsula reported shows of gas over a large interval while drilling to total depth of 9,154 feet. Dome announced that the well flowed medium gravity oil at the rate of 1,150 barrels per day at the 8,900 foot level. Subsequent test results have not been released but there are unconfirmed reports of gas flows in excess of 8 million cubic feet per day. While information is limited, the potential of the area is considered to be at least as great as the North Slope of Alaska. Sunlite holds a 1 percent overriding royalty on 3 million acres in the Beaufort Sea. A second well on our holdings to the south of the discovery well is planned for 1978, and a third well has been projected at a location about 40 miles to the east. While we do not expect the Beaufort Sea to contribute to Sunlite's earnings for five years or more, our interest in this and future discoveries on our holdings will add substantially to the value of the company.

For the Board of Directors:



EDWIN C. JAMES
President
November 22, 1977



Exploration

CANADA

Sunlite participated in drilling fifteen wells in Canada during the nine month fiscal period. Of this total there were seven development wells which resulted in three oil wells and four injection wells at Hamilton Lake. Four of the eight exploratory tests were completed as gas wells and four tests were abandoned.

The exploratory wells were drilled over a wide ranging area of Alberta from Cheddarville in the south central part of the province to Rambling River in the northwest. Each exploratory well was drilled to earn acreage for the Company through farmout or to evaluate acreage offered at a government land sale.

Akuinu

Two additional gas wells in which Sunlite has a 50 percent interest were drilled in the Akuinu area of central Alberta, testing at rates ranging from 1 to 3 million cubic feet per day from the Ostracod and Colony zones. Your company was also successful in purchasing a 25 percent interest in a 5,760 acre gas license in the area. Offsetting gas wells to the northeast and southwest of the license were drilled by others during the past winter drilling season. Sunlite now has an interest in three wells (two net wells) and 14,880 acres of leases and licenses (6,960 net acres) in the Akuinu area.

There will probably not be a market for the Akuinu gas until 1979 because of the current over-supply of gas in Alberta and complete development of the field will be deferred until that time. In the interim, some drilling will be necessary to maintain our leases and licenses. The Company expects to participate in drilling two or three wells this winter with interests varying from 12.5 percent to 25 percent.

When the field is fully developed and placed on stream, it is expected to make a significant contribution to Sunlite's cash flow.

East Coast Baffin Island

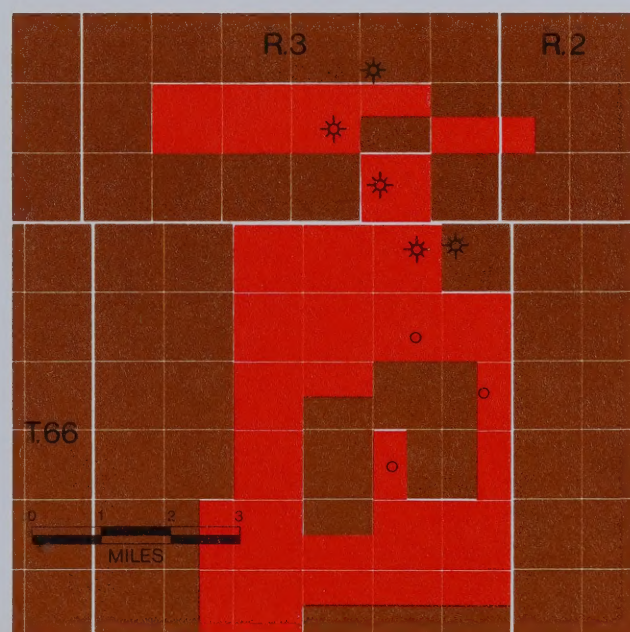
Sunlite has farmed out its 20.17 percent working interest in 1,834,354 acres offshore Baffin Island to Canada Cities Service Limited and retained a 1 percent gross overriding royalty on the acreage.

Sunlite made the decision to farm out its interest because of the large expense and long time delay in evaluating these holdings, although they are still considered to have potential for major reserves.

UNITED STATES

Texas

Sunlite is presently leasing a number of exploratory prospects in the East Texas Basin for Cretaceous and Jurassic objectives. In general these are large potential prospects on known producing trends which lend themselves to seismic structural delineation. Leasing is essentially complete on ten of these prospects and it is expected the first well will be drilled in 1978.



Akuinu

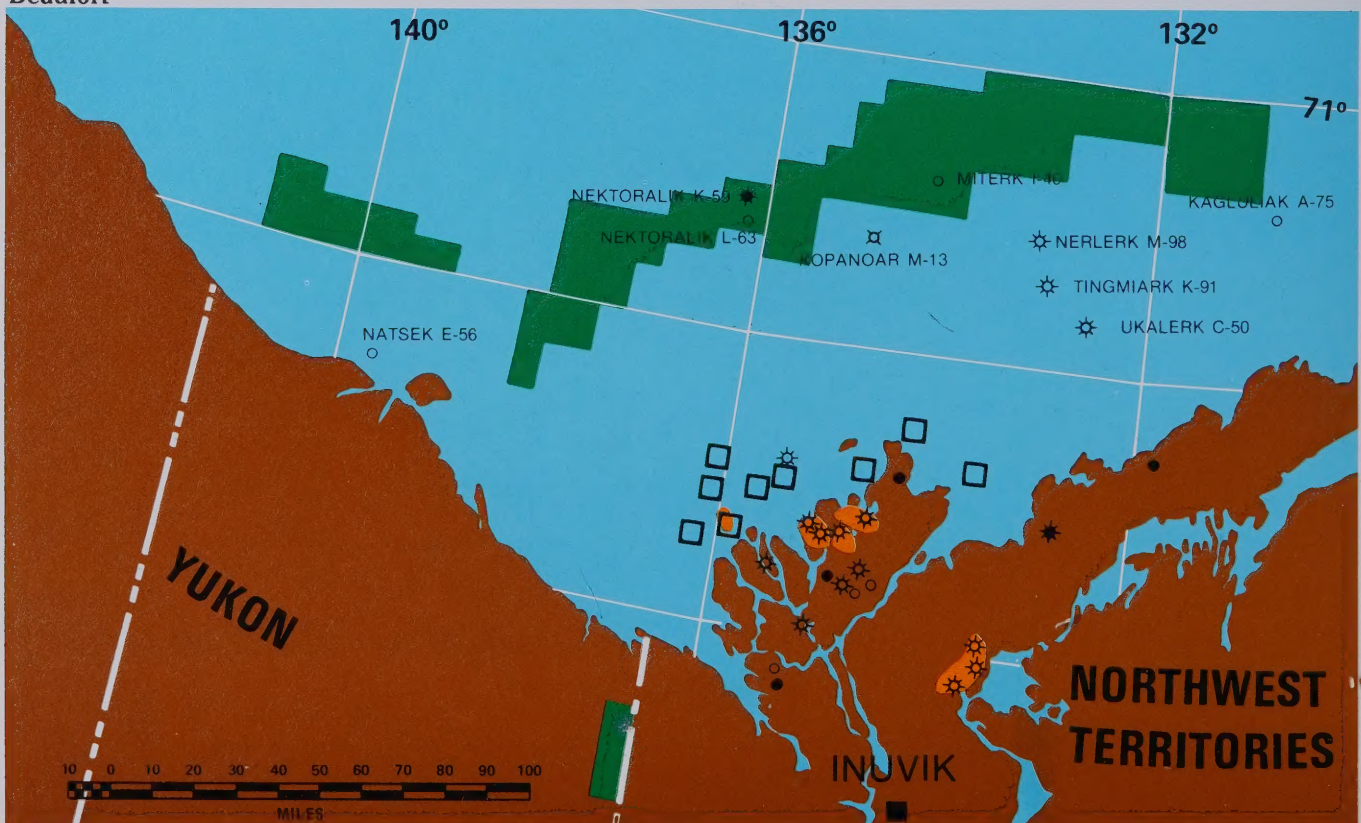
- Sunlite Working Interest
- Location
- Gas Well



Baffin

- Sunlite Royalty Interest
- Man-made Islands
- Location or Drilling Well
- Gas Well
- Oil Well
- Abandoned

Beaufort



INTERNATIONAL

Sunlite's exploration program for the nine month fiscal period consisted of participation in five exploratory wells, one of which resulted in a gas-condensate discovery. Our expenditures in this program for the period were \$341,000. Several of these wells were farmed out (all or in part) which reduced our cash expenditures.

Our policy has been to commit our funds to exploratory projects which have a large potential. Your company now has significant proven and semi-proven undeveloped reserves in the United Kingdom, Holland and the Arabian Gulf. Our next step will be to delineate and develop these projects in association with our partners beginning in 1978.

United Kingdom

Sunlite participated in the following wells in the United Kingdom during the fiscal period:

1. 15/8-1 (Sunlite 5 percent) was drilled to test a seismically defined sandbar of Paleocene Age. This objective which is a major producer in the Forties and Frigg Fields was found to be water bearing at 15/8-1. In addition, the well tested a Jurassic sand pinchout up dip from shows found in wells on Block 16/13 to the south. This objective was also barren and the well was plugged at a total depth of 5,923 feet. Sunlite farmed out a 5 percent interest which paid for its costs in this well.
2. 28/5-1 (Sunlite 6.25 percent) was drilled to test a Permian sand objective on a large up-faulted structure. This well penetrated the objective sands but found them water bearing at a depth of 9,800 feet. Sunlite farmed out 3.75 percent of its interest to others so that it paid 2.5 percent of the well cost in drilling this test well. In addition, our cost was substantially reduced by a dry hole contribution from operators of the offsetting license.

Germany

Sunlite participated in the following wells in Germany during the fiscal period:

1. H/9-1 (Sunlite 7.5 percent) was drilled to 6,450 feet on a prominent salt dome structure. The Bunter sand was found to be water bearing.
2. J/4-1 (Sunlite 7.5 percent) was drilled to 4,272 feet on another salt structure and again the Bunter sand was water bearing.

These wells along with tests drilled by others have in our opinion effectively condemned the hydrocarbon potential of the Bunter formation in this sector of the North Sea.

A well drilled near Sunlite's Block J/14 by another group found shows of gas in Permian age sandstones. This well was abandoned for mechanical reasons before an adequate test could be conducted, and another exploratory well is planned for 1978. We will await results of further test wells before making a decision on our German acreage position.

Sunlite farmed out a Jurassic prospect on Wangerooge Island (Jade Plate Block) and retained a 5 percent carried working interest in a well to be drilled in 1978.

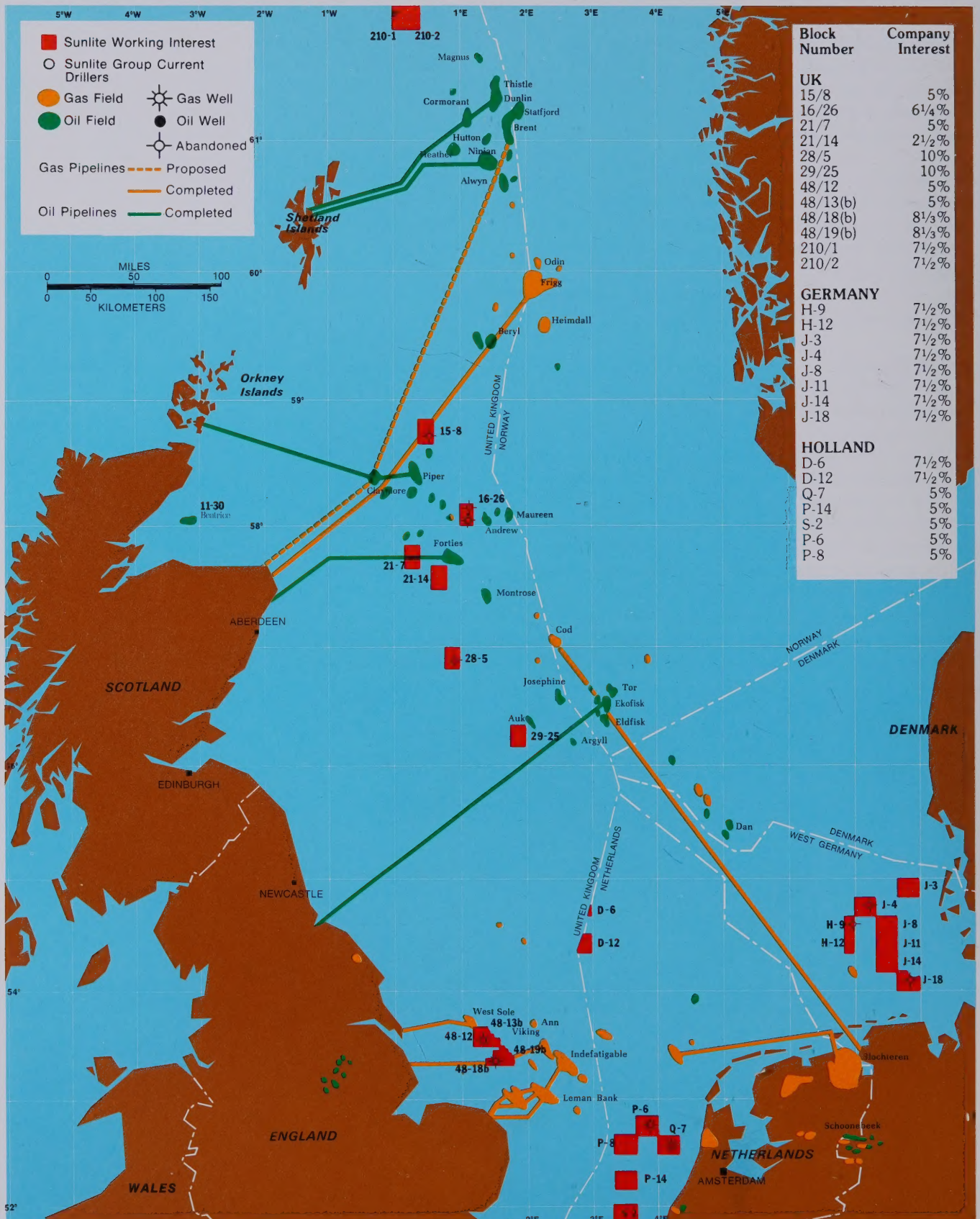
Holland

Sunlite owns a five percent interest in two shut in gas wells located on Blocks P/6 and Q/7 in the Dutch North Sea. While no additional wells were drilled during this period, we have completed further seismic studies and believe these structures are large enough to contain commercial gas reserves. Studies of the economics of producing the gas are being made and consideration is being given to drilling one or more evaluation wells. If these are successful, it is planned to undertake development of the reserves.

Arabian Gulf

Sunlite participated in a second discovery well (.4 percent working interest) in the Emirate of Ras al Khaimah. The B-1 well reported last year flowed oil on short term tests. The current well, RAK A-1, was drilled on a separate structure and flowed gas at the rate of 17 million cubic feet per day and condensate at the rate of 2,500 barrels per day from limestone of Cretaceous age. Sunlite is participating in a third well, RAK A-2, which is currently drilling. Information from this well on the characteristics of the Cretaceous reservoirs will assist in evaluating development economics.

Sunlite has acquired a two percent working interest in the Emirate of Umm al Qaiwain. A well, UAQ No. 1, was drilled on a large structure which flowed gas at rates of over 30 million cubic feet per day. Negotiations are currently underway to sell this gas to the Sheikdom of Dubai for electrical power generation. Additional drilling will be commenced on this structure to develop the field when contract negotiations have been completed.



Financial Review

Revenue from oil and gas for the nine months ended June 30, 1977 was \$1,194,878, an increase of 57 percent over the comparable period in 1976. The increase results primarily from having our Helmet gas field on production since April, 1976 and from price increases. Investment income was \$135,830, down 36 percent from 1976 as a result of withdrawing funds from investments for use in exploration programs.

Operating costs have increased primarily from the high cost of production associated with our Helmet gas field and because of increased production levels. General and administrative expense has increased as a result of an increased level of activity in our U.S. and Canadian exploration programs and from inflation.

Cash flow from operations was \$568,541, up from \$491,164 in 1976. The net loss for the nine month period was \$558,884 or \$.19 per share.

Fixed asset additions totalling \$531,841 are summarized as follows:

Drilling four gas wells in Canada and one gas-condensate discovery in the Persian Gulf amounted to \$215,000; well equipment purchased for our Helmet and Benton fields cost \$117,000 and lease acquisitions in Canada and the U.S.A. amounted to \$200,000.

Dry hole costs totalling \$475,000 include the cost of four dry holes in Alberta costing \$156,000; our share of two dry holes in the U.K. North Sea costing \$90,000 and of two dry holes in the German sector of the North Sea costing \$220,000.

Exploration costs totalling \$211,000 charged to expense reflect seismic programs carried out in Alberta, offshore Canada's east coast, offshore California, in the U.K. North Sea and in the Celtic Sea.

Property surrenders and write-offs reflect the cost of properties written off in Alberta totalling \$125,000, in Louisiana for \$36,000, in Gambia for \$25,000 and in the Dutch and German sectors of the North Sea totalling \$48,000.

Working capital at June 30, 1977 is \$1,327,175, a decrease of \$186,588 for the nine month period.

Index to Financial Statements

Consolidated Balance Sheet
As at September 30, 1976 and June 30, 1977

**Consolidated Statement
of Earnings**
For the Year Ended June 30, 1976 and
The Nine Months Ended June 30, 1976 and 1977

Consolidated Statement of Deficit
For the Year Ended June 30, 1976 and
The Nine Months Ended June 30, 1976 and 1977

**Consolidated Statement of
Changes in Financial Position**
For the Year Ended June 30, 1976 and
The Nine Months Ended June 30, 1976 and 1977

**Notes to Consolidated
Financial Statements**

Auditors' Report

Sunlite Oil Company Limited
And Subsidiary Companies

Consolidated Balance Sheet

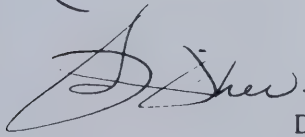
As At September 30, 1976 and June 30, 1977

	June 30, 1977	September 30, 1976
ASSETS		
CURRENT ASSETS		
Cash	\$ 637,371	\$ 536,391
Marketable Securities, at lower of cost and market	-	289,431
Accounts Receivable (Notes 3 and 4)	1,149,549	863,332
	<u>1,786,920</u>	<u>1,689,154</u>
PROMISSORY NOTES (Note 4)	<u>591,100</u>	<u>731,100</u>
FIXED ASSETS, at cost (Notes 1 and 5)		
Petroleum and natural gas leases, and rights together with development and equipment thereon		
Producing	3,374,156	3,219,014
Accumulated depletion and depreciation	808,361	627,703
	<u>2,565,795</u>	<u>2,591,311</u>
Non-Producing		
Leases	2,040,306	2,182,260
Royalty Rights	154,386	151,937
Capped wells and work in progress	3,192,995	3,046,735
	<u>7,953,482</u>	<u>7,972,243</u>
OTHER ASSETS	<u>18,486</u>	<u>19,672</u>
	<u>\$10,349,988</u>	<u>\$10,412,169</u>

	June 30, 1977	September 30, 1976
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 459,745	\$ 175,391
LONG-TERM DEBT (note 6)	723,641	529,778
DEFERRED INCOME TAXES (note 1)	445,637	428,251
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 7)		
Authorized		
6,000,000 shares without nominal or par value		
Issued		
2,976,313 shares (2,975,813 shares in 1976)	11,218,225	11,217,125
DEFICIT	(2,497,260)	(1,938,376)
	8,720,965	9,278,749

Signed on behalf of the Board:


Director


Director

<u>\$10,349,988</u>	<u>\$10,412,169</u>
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Sunlite Oil Company Limited
And Subsidiary Companies

Consolidated Statement of Earnings

	Nine Months Ended June 30, 1977	Nine Months Ended June 30, 1976	Year Ended September 30, 1976
		(unaudited)	
REVENUE			
Oil and gas sales	\$1,194,878	\$ 762,145	\$1,142,705
Property sales	-	81,514	81,514
Investments	135,830	185,226	214,989
	<u>1,330,708</u>	<u>1,028,885</u>	<u>1,439,208</u>
EXPENSE			
Operating	195,480	95,068	185,135
General and administrative	529,842	400,491	532,592
Carrying charges on non-producing properties	71,350	53,802	68,636
Dry hole costs	474,349	840,087	968,787
Exploration	211,417	83,439	289,515
Property surrenders and write-offs	237,588	155,538	910,521
Depletion and depreciation	185,498	144,211	239,159
	<u>1,905,524</u>	<u>1,772,636</u>	<u>3,194,345</u>
Loss before income taxes	<u>(574,816)</u>	<u>(743,751)</u>	<u>(1,755,137)</u>
Recovery of (provision for) income taxes			
Current	33,318	44,435	65,533
Deferred	(17,386)	44,306	246,624
	<u>15,932</u>	<u>88,741</u>	<u>312,157</u>
LOSS FOR THE PERIOD	<u>\$ (558,884)</u>	<u>\$ (655,010)</u>	<u>\$ (1,442,980)</u>
LOSS PER SHARE (based upon weighted average number of shares outstanding)	<u>\$ (.19)</u>	<u>\$ (.23)</u>	<u>\$ (.50)</u>

Consolidated Statement of Deficit

	Nine Months Ended June 30, 1977	Nine Months Ended June 30, 1976	Year Ended September 30, 1976
		(unaudited)	
DEFICIT AT BEGINNING OF PERIOD	\$ (1,938,376)	\$ (495,396)	\$ (495,396)
Loss for the Period	(558,884)	(655,010)	(1,442,980)
DEFICIT AT END OF PERIOD	<u>\$ (2,497,260)</u>	<u>\$ (1,150,406)</u>	<u>\$ (1,938,376)</u>

Sunlite Oil Company Limited
And Subsidiary Companies

Consolidated Statement of Changes in Financial Position

	Nine Months Ended June 30, 1977	Nine Months Ended June 30, 1976	Year Ended September 30, 1976
		(unaudited)	
WORKING CAPITAL DERIVED FROM			
Loss for the period	\$ (558,884)	\$ (655,010)	\$(1,442,980)
Add items not affecting working capital	569,174	222,648	924,308
	10,290	(432,362)	(518,672)
Add dry hole costs and exploration expenditures charged to operations	558,251	923,526	1,133,784
Working capital derived from operations before dry hole costs and exploration expenditures	568,541	491,164	615,112
Reduction in notes receivable, net	140,000	-	309,450
Gas contract advances, net	-	363,063	360,241
Issue of capital stock (note 7)	1,100	1,434,720	1,435,720
Proceeds from convertible note (note 7)	369,600	-	-
	1,079,241	2,288,947	2,720,523
WORKING CAPITAL APPLIED TO			
Dry hole costs	380,740	840,087	954,754
Exploration expenditures	177,511	83,439	179,030
	558,251	- 923,526	1,133,784
Fixed assets (note 5)	531,841	2,825,625	3,034,030
Repayment of gas contract advances, net	175,737	-	-
	1,265,829	3,749,151	4,167,814
DECREASE IN WORKING CAPITAL	(186,588)	(1,460,204)	(1,447,291)
Working capital at beginning of period	1,513,763	2,961,054	2,961,054
WORKING CAPITAL AT END OF PERIOD	\$1,327,175	\$ 1,500,850	\$ 1,513,763

Sunlite Oil Company Limited
And Subsidiary Companies

Notes to Consolidated Financial Statements
For the Year Ended September 30, 1976 and
The Nine Months Ended June 30, 1977

NOTE 1 - ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the company's wholly-owned subsidiaries, Sunlite International Inc., and Sunlite Oil Company (U.K.) Limited.

Amounts in foreign currency are converted to Canadian dollars on the following bases:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
- (ii) Fixed assets and related depreciation, at the rate of exchange at the date of acquisition.
- (iii) Other expenses and revenues, at the average rate of exchange for the period.

Petroleum and Natural Gas Properties

The cost of acquisition of leases and royalty rights, including drilling expenditures and exploratory dry holes which earn an interest, are capitalized. Costs are charged to earnings when properties are surrendered or are determined to be of decreased value. The costs of producing leases and royalty interests are amortized using the unit of production method.

Exploration expenses, other than dry holes which earn an interest, and carrying charges of both producing and non-producing properties are charged to earnings as incurred. The costs of drilling a productive well, including the cost of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to earnings when determined to be dry.

Other Mineral Rights

The costs of acquisition, evaluation and development of mineral properties are capitalized. Such costs will be amortized using the unit of production method or, when properties are proven to be uneconomical, they are charged to earnings.

Income Taxes

The company follows the tax allocation method of accounting for income taxes under which the income tax provision is based upon earnings reported in the accounts.

NOTE 2 - CHANGE IN YEAR END

The company has changed its year end from September 30 to June 30.

NOTE 3 - ACCOUNTS RECEIVABLE

Included in accounts receivable at September 30, 1976 and June 30, 1977 is an amount of \$190,000 U.S. representing the amount due on sale of mineral properties. During October, 1971, the company commenced legal action to collect the amount. Counsel for the company has advised that, in their opinion, the claim is valid.

NOTE 4 - PROMISSORY NOTES

	<u>June 30, 1977</u>	<u>September 30, 1976</u>
Due from officers and directors in 1978 and 1979, non-interest bearing	<u>\$340,000</u>	\$340,000
Non-interest bearing notes, receivable in equal annual installments to July 1, 1980 (less discount for 10% imputed interest)	<u>626,700</u>	626,700
	<u>966,700</u>	966,700
Current maturity included in accounts receivable	<u>375,600</u>	235,600
	<u><u>\$591,100</u></u>	<u><u>\$731,100</u></u>

An extension of two years was granted to an officer and director for payment of a \$100,000 note due on July 2, 1977. As a result, the amount shown as a current maturity at September 30, 1976 has been reclassified as a long term note receivable. A fee of 1/2 of 1% per year was charged for granting the extension.

NOTE 5 - FIXED ASSETS

During the year ended September 30, 1976 exploratory dry hole costs which earned an interest were capitalized in the amount of \$712,000.

NOTE 6 - LONG TERM DEBT

	<u>June 30, 1977</u>	<u>September 30, 1976</u>
Gas contract advances, repayable from 50% of future gas sales from certain wells and secured by the specified properties	<u>\$354,041</u>	\$529,778
Convertible note payable, at Canadian dollar equivalent of \$350,000 U.S., bearing interest at 125% of bank prime lending rate and due January 20, 1978 (see note 7)	<u>369,600</u>	-
	<u><u>\$723,641</u></u>	<u><u>\$529,778</u></u>

NOTE 7 - CAPITAL STOCK

Changes in capital stock during the year ended September 30, 1976 and the nine months ended June 30, 1977 were as follows:

	Number of Shares	Consideration
Balance at September 30, 1975	2,782,813	\$ 9,781,405
Private placement to finance North Sea drilling	30,000	148,500
Shares issued pursuant to subscription agreement, at Canadian dollar equivalent	162,500	1,286,220
Shares issued on exercise of stock option	500	1,000
Balance at September 30, 1976	2,975,813	11,217,125
Shares issued on exercise of stock option	500	1,100
Balance at June 30, 1977	2,976,313	\$11,218,225

Share Subscription Agreements

Pursuant to an agreement signed on March 25, 1974, Mesa Petroleum Co. (Mesa) agreed to purchase an aggregate of 564,881 common shares of Sunlite in the following amounts on the following dates and at the following prices:

- (i) 216,667 shares at \$6.00 (U.S.) cash per share on May 8, 1974
- (ii) 185,714 shares at \$7.00 (U.S.) cash per share on or before May 8, 1975
- (iii) 162,500 shares at \$8.00 (U.S.) cash per share on or before May 8, 1976

All shares were issued and paid for in accordance with the agreement.

Pursuant to an agreement dated May 27, 1976, Mesa has the right to subscribe for and acquire up to 70,000 additional shares of common stock at \$5.00 (U.S.) cash per share. In the alternative, the company could request Mesa to pay a maximum of \$350,000 (U.S.) cash for a promissory note of the company (bearing interest at 125% of a bank prime lending rate) redeemable at the company's discretion, in cash or fully-paid shares of common stock issued at \$5.00 (U.S.) per share. This agreement expires on January 20, 1978. During the current period, the company requested Mesa to pay the aforementioned \$350,000 (U.S.) in consideration for a promissory note of the company. If the note is converted, the issue of these additional 70,000 shares to Mesa would increase Mesa's holdings to 634,881 shares, representing 20.8% of the then outstanding common stock of the company assuming no other issuances of such shares.

Stock Options

As at June 30, 1977, there were 147,500 common shares of the company (September 30, 1976 - 128,000 common shares) reserved for exercise from time to time to 1981, of employee stock options at prices ranging from \$2.20 to \$3.66 per share. The exercise prices were equal to or greater than the market price of the shares at the date of granting. As at June 30, 1977, 14,000 of these options are exercisable as "market growth" options. Changes in the number of optioned shares were as follows:

	Officers	Other Employees	Total	Consideration
Outstanding October 1, 1975	121,500	7,000	128,500	
Exercised at \$2.00	-	(500)	(500)	\$1,000
Outstanding September 30, 1976	121,500	6,500	128,000	
Cancelled at \$6.50	(4,000)	-	(4,000)	
Cancelled at \$6.00	(110,000)	-	(110,000)	
Granted at \$2.50 to \$3.33	129,000	5,000	134,000	
Exercised at \$2.20	-	(500)	(500)	\$1,100
Outstanding June 30, 1977	136,500	11,000	147,500	

NOTE 8 - REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid during the nine months ended June 30, 1977 to directors and senior officers totalled \$141,000 (year ended September 30, 1976 - \$173,000).

NOTE 9 - COMMITMENTS

The company has commitments for exploratory drilling in the North Sea at an estimated cost of \$175,000 (September 30, 1976 - \$1,500,000).

AUDITORS' REPORT

To the Shareholders of Sunlite Oil Company Limited

We have examined the consolidated balance sheet of Sunlite Oil Company Limited as at September 30, 1976 and June 30, 1977, and the consolidated statements of earnings, deficit and changes in financial position for the year ended September 30, 1976 and the nine months ended June 30, 1977. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the collectibility of the account receivable referred to in note 3 to the consolidated financial statements, these consolidated financial statements present fairly the financial position of the company as at September 30, 1976 and June 30, 1977 and the results of its operations and the changes in its financial position for each of the periods then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
September 9, 1977

THORNE RIDDELL & CO.
Chartered Accountants

Sunlite Oil Company Limited

Management's Discussion and Analysis of the Consolidated Statement of Earnings

ITEM NO.

(1), (4), & (9) OIL AND GAS SALES

As we have stated in previous years, it has been the goal of Sunlite's management to build an income flow domestically while also exploring in high potential (also high risk) foreign areas. Our oil and gas sales for the nine months ended June 30, 1977 reached \$1,194,878, an increase of 57% over the nine months ended June 30, 1976. The increases result primarily from having our Helmet, B.C. gas field on production from April 1, 1976 and from general price increases. WELL OPERATING COSTS have risen because of the remote location of our Helmet field, increased production levels, and higher prices. INCREASES in DEPLETION and DEPRECIATION costs reflect higher production levels.

(2) LEASE SALES

Sunlite has taken a position in coal leases in the Beluga Lake region of Alaska. Prepayments forfeited by a major company who chose not to exercise their option on certain acreage and the sale of another tract contributed \$81,514 to 1976 income.

(3) INVESTMENT INCOME

Income has decreased over the last nine months as funds have been withdrawn from investments and spent on exploration.

(5) GENERAL AND ADMINISTRATIVE EXPENSE

These costs have increased over the last nine months primarily from increased expenditures on geological consultants, increased drilling activity and from the impact of inflation.

(6) CARRYING CHARGES ON NON-PRODUCING PROPERTIES

The increase in the current nine month period reflects acreage acquisitions during the year ended September 30, 1976.

(7) EXPLORATION AND DRY HOLE COSTS

For the nine months ended June 30, 1977 exploration costs totalled \$200,000 including \$65,000 spent on a seismic program offshore Canada's east coast; \$23,000 spent in Alberta; \$32,000 spent on United Kingdom North Sea prospects; \$45,000 spent on evaluating offshore California blocks; and \$27,000 spent in evaluating possible participation in the Irish sector of the Celtic Sea.

Dry hole costs totalled \$475,000, including the cost of four dry holes in Alberta costing \$156,000; our share of two dry holes (Blocks 15/8 and 28/5) in the United Kingdom North Sea costing \$90,000; and our share of the costs of two dry holes (Blocks H/9 and J/4) in the German sector of the North Sea costing \$220,000.

(8) PROPERTY SURRENDERS AND WRITE-OFFS

For the nine months ended June 30, 1977 costs totalling \$238,000 include write-offs of two producing properties in Alberta which became non-economic amounting to \$83,000; write-off of other non-producing rights in Alberta of \$42,000; the write-off of certain non-producing rights in Louisiana amounting to \$36,000; the write-off of the cost of our Gambian concession amounting to \$25,000; the cost of Dutch North Sea blocks D/6 and D/12 amounting to \$30,000 and the cost of certain German North Sea blocks amounting to \$18,000.

Sunlite Oil Company Limited
And Subsidiary Companies

Five Year Earnings Summary

	For the Nine Months Ended June 30, 1977	For the Nine Months Ended June 30, 1976	1977 as to 1976 Increase (Decrease)	Item	For The Year Ended September 30,			
		(unaudited)			1976	1975	1974	1973
REVENUE								
Oil and gas sales	\$1,194,878	\$ 762,145	\$432,733	(1)	\$ 1,142,705	\$ 710,468	\$ 445,873	\$ 139,697
Lease sales	-	81,514	(81,514)	(2)	81,514	-	778,186	2,005,847
Investments	135,830	185,226	(49,396)	(3)	214,989	267,234	293,901	193,535
Other	-	-	-		-	4,292	15,483	2,329
	<u>1,330,708</u>	<u>1,028,885</u>	<u>301,823</u>		<u>1,439,208</u>	<u>981,994</u>	<u>1,533,443</u>	<u>2,341,408</u>
EXPENSES								
Well operating	195,480	95,068	100,412	(4)	185,135	96,315	74,309	27,789
General and administrative	528,332	399,487	128,845	(5)	531,253	444,613	463,537	396,521
Carrying charges on non- producing properties	71,350	53,802	17,548	(6)	68,636	131,699	67,495	111,126
Exploration and dry hole costs	685,766	923,526	(237,760)	(7)	1,258,302	385,334	208,135	375,514
Property surrenders and write-offs	237,588	155,538	82,050	(8)	910,521	498,036	120,488	281,591
Interest	1,510	1,004	506		1,339	290	857	1,215
Depletion and depreciation	185,498	144,211	41,287	(9)	239,159	102,324	110,199	26,417
	<u>1,905,524</u>	<u>1,772,636</u>	<u>132,888</u>		<u>3,194,345</u>	<u>1,658,611</u>	<u>1,045,020</u>	<u>1,220,173</u>
Earnings (loss) before income taxes and extraordinary item	<u>(574,816)</u>	<u>(743,751)</u>	<u>168,935</u>		<u>(1,755,137)</u>	<u>(676,617)</u>	<u>488,423</u>	<u>1,121,235</u>
Recovery of (provision for) income taxes								
Current	33,318	44,435	(11,117)		65,533	40,000	(409,601)	-
Deferred	(17,386)	44,306	(61,692)		246,624	219,041	94,200	(845,290)
	<u>15,932</u>	<u>88,741</u>	<u>(72,809)</u>		<u>312,157</u>	<u>259,041</u>	<u>(315,401)</u>	<u>(845,290)</u>
Earnings (loss) before extraordinary item	<u>(558,884)</u>	<u>(655,010)</u>	<u>96,126</u>		<u>(1,442,980)</u>	<u>(417,576)</u>	<u>173,022</u>	<u>275,945</u>
Realization of tax benefit of prior period losses	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>-</u>	<u>409,601</u>	<u>-</u>
NET EARNINGS (LOSS)	<u>\$ (558,884)</u>	<u>\$ (655,010)</u>	<u>\$ 96,126</u>		<u>\$(1,442,980)</u>	<u>\$(417,576)</u>	<u>\$ 582,623</u>	<u>\$ 275,945</u>
WEIGHTED AVERAGE NO. OF COMMON SHARES OUTSTANDING								
	<u>2,975,925</u>	<u>2,822,566</u>	<u>-</u>		<u>2,860,748</u>	<u>2,671,384</u>	<u>2,466,156</u>	<u>2,367,932</u>
PER SHARE								
Earnings (loss) before extraordinary item	<u>\$(.19)</u>	<u>\$(.23)</u>			<u>\$(.50)</u>	<u>\$(.16)</u>	<u>\$.07</u>	<u>\$.12</u>
Realization of tax benefit of prior period losses	<u>-</u>	<u>-</u>			<u>-</u>	<u>-</u>	<u>.17</u>	<u>-</u>
Net earnings (loss)	<u>\$(.19)</u>	<u>\$(.23)</u>			<u>\$(.50)</u>	<u>\$(.16)</u>	<u>\$.24</u>	<u>\$.12</u>

Directors

PETER M. CLARKE,
Vice President - International
Mesa Petroleum Co.
Aberdeen, Scotland
J. STEWART FISHER,
Barrister and Solicitor
Didsbury, Alberta
GAINES L. GODFREY,
Vice President - Finance
Mesa Petroleum Co.
Amarillo, Texas
DONALD E. HOCKADAY, Jr.,
Executive Vice President
of the Company
Houston, Texas
EDWIN C. JAMES,
President of the Company
Houston, Texas
JACK K. LARSEN,
Group Vice President
and Director
Mesa Petroleum Co.
Amarillo, Texas
BARRY W. SWAN,
Treasurer of the Company
Calgary, Alberta

Officers

EDWIN C. JAMES,
President
DONALD E. HOCKADAY, Jr.,
Executive Vice President
J. STEWART FISHER,
Secretary
BARRY W. SWAN,
Treasurer
E. CHRISTA HINOJOSA,
Assistant Secretary

Head Office

1517 Norcen Tower
715 - 5 Avenue S.W.
Calgary, Alberta T2P 2X6

Branch Office

2500 One Allen Center
Houston, Texas

Subsidiary Companies

SUNLITE INTERNATIONAL INC.
SUNLITE OIL COMPANY (U.K.) LIMITED

Bankers

CANADIAN IMPERIAL BANK OF
COMMERCE
Calgary, Alberta
CONTINENTAL ILLINOIS NATIONAL
BANK
Chicago, Illinois
CAPITAL NATIONAL BANK
Houston, Texas

Auditors

THORNE RIDDELL & CO.
Calgary, Alberta

Solicitors

J.S. FISHER
Didsbury, Alberta
KRIST & McMURREY
Houston, Texas

Transfer Agent

THE CANADA TRUST COMPANY
Calgary, Alberta
FIRST NATIONAL CITY BANK
New York, New York

Common Shares Listed

VANCOUVER STOCK EXCHANGE

Summary of Reserves and Production

	Crude Oil		Natural Gas	
	Production	Reserves	Production	Reserves
	(Barrels per day)		(Thousands of cubic feet per day)	
	Nine Months Ended June 30, 1977	(Barrels, net before royalties)	Nine Months Ended June 30, 1977	(Thousands of cubic feet, net before royalties)
Canada	147	798,000	3,388	31,842,000
United States of America	18	24,000	502	1,122,000
Foreign	-	-	-	25,875,000

PRICE RANGE OF COMMON STOCK ON VANCOUVER STOCK EXCHANGE

	Nine Months Ended June 30, 1977		Year Ended September 30, 1976	
	High	Low	High	Low
First Quarter	\$3.70	\$2.30	\$4.25	\$2.55
Second Quarter	\$4.10	\$3.25	\$4.65	\$3.20
Third Quarter	\$3.75	\$3.25	\$5.25	\$3.50
Fourth Quarter	\$ -	\$ -	\$4.90	\$2.60

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